

Washington State Department of Retirement Systems

Funds of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

Prepared by the Washington State Department of Retirement Systems

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Department of Retirement Systems

Guiding Principles

1

We will treat our customers and each other with respect, fairness, honesty, and consistency.

2

We will communicate openly and considerately.

3

We will foster a climate in which innovation, initiative, and accountability are expected and supported.

4

We will work with our customers to improve our responsiveness in meeting their needs.

5

We will maximize the use of technology and emphasize user-friendly interface.

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Introductory Section

Message from the Director

Early this year, the governor asked me to lead the Department of Retirement Systems. I was thrilled to take on the challenge and pleased to work with dedicated, professional staff that take pride in what they do and the value they bring to the citizens of Washington.

In 2005 we continued to deliver outstanding day-to-day customer service and once again earned high marks for cost-effective, efficient pension administration. We added a new feature to our Web site that enables members to estimate benefits based on their actual account data. And we began to move our thinking to a new level, asking the question: How can we better help our members prepare and plan for retirement?

Retirement is changing. People are living longer than they did in past generations. Many will spend more time in retirement than they did in their working careers. They will need the financial resources to do so. Though an earned pension is a key part of retirement security, it is not intended to be the sole source of income.

Those nearing retirement may also need a more flexible workplace – one that offers options for continuing to work – both for financial and soul-sustaining reasons. Baby Boomers are already making it clear that some will be ready to leave the workforce when eligible for retirement, while others may not be ready for several years. The mistake would be in assuming one “shoe” fits everyone.

This year, we began reaching out to public sector employees, their employers and the community at large, engaging them in discussions about the changing nature of retirement. Now is the time to redefine traditional ideas to fit the needs of a changing demographic.

If you have questions about this report or would like to request additional information, please call us toll-free at 1-800-547-6657. In the Olympia area, dial 664-7000. You may also write us at P.O. Box 48380, Olympia, WA 98504-8380 or visit our Web site at www.drs.wa.gov.

No one has the answers, yet. But the only way we will arrive at those answers is to begin and actively participate in the discussions.

Though we're looking closely at the future needs of our members, we're also continuing to ensure we meet their current needs. We asked ourselves another question this year: What can we do to make the retirement process easier? Then we got to work on doing exactly that.

2005 has been a year of accomplishment, transition and change. We consider it a privilege to work with those who dedicate their careers to public service and look forward to serving them in 2006.

Sincerely,

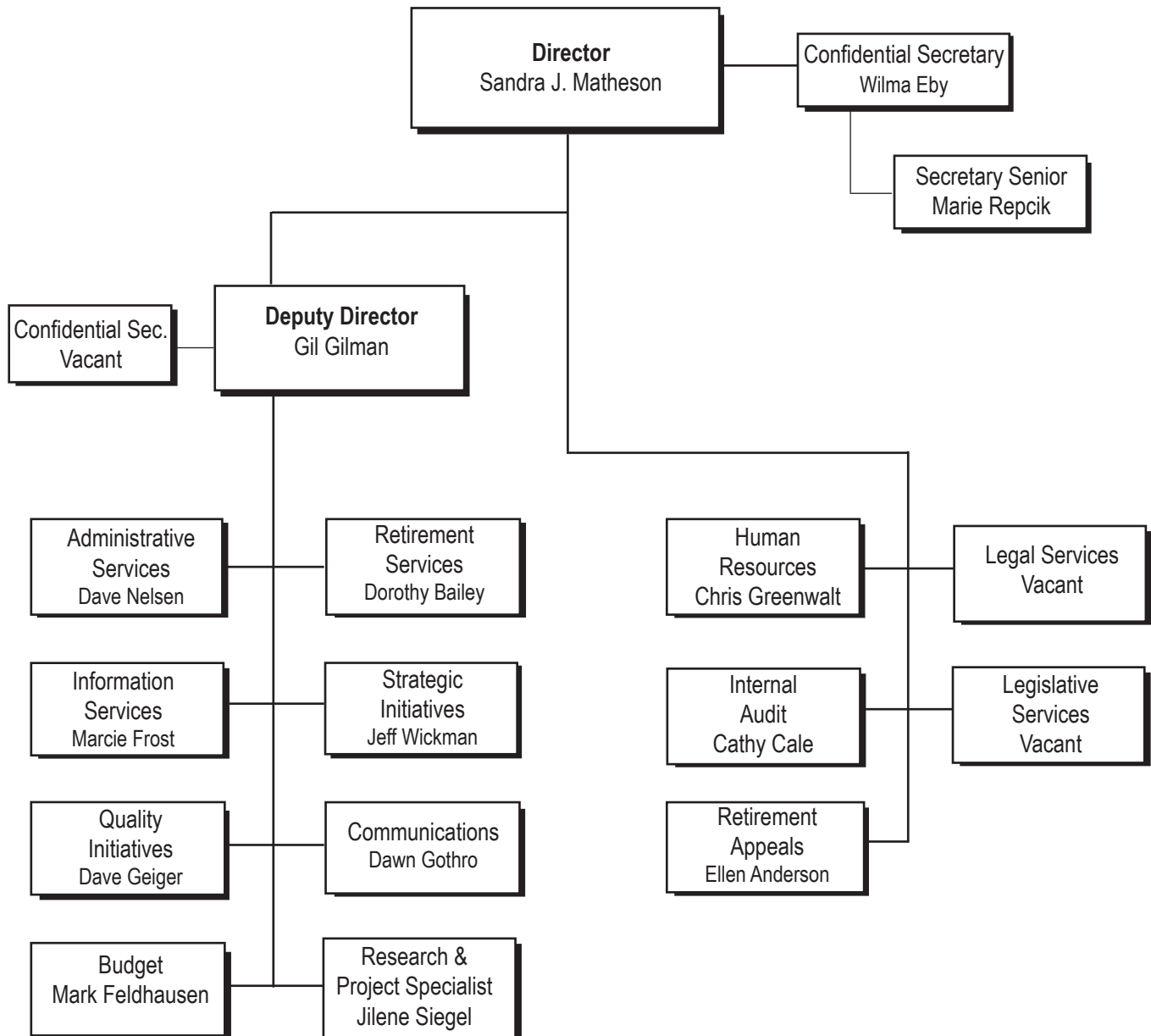


Sandra J. Matheson
Director



Department of Retirement Systems' Organization

June 2005



Pension System Roles and Responsibilities

Department of Retirement Systems (DRS)

Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation and Dependent Care Assistance Programs.

The governor appoints the director of DRS.

P.O. Box 48380, Olympia, WA 98504-8380

Telephone: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657

Web site: www.drs.wa.gov

Legislative Fiscal Committees

Review and report on retirement bills to the full Legislature.

The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee.

House Appropriations Committee

P.O. Box 40600, Olympia, WA 98504-0600

Telephone: (360) 786-7573 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Senate Ways and Means Committee

P.O. Box 40482, Olympia, WA 98504-0482

Telephone: (360) 786-7715 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Select Committee On Pension Policy

Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.

The Select Committee on Pension Policy is composed of four members of the Senate, four members of the House of Representatives, four representatives of active state retirement system members, two representatives of retired members, four employer representatives and the directors of the Office of Financial Management and the Department of Retirement Systems.

Committee Membership (June 30, 2005)

Representative Bill Fromhold (Chair)	Bob Keller - PERS Active
Senator Karen Fraser (Vice Chair)	Pat Thompson - PERS Active
Senator Joyce Mulliken	Lois Clement - PERS Retiree
Senator Craig Pridemore	Corky Mattingly - PERS Employers
Representative Steve Conway	Doug Miller - PERS Employers
Representative Larry Crouse	Glenn Olson - PERS Employers
Representative Toby Nixon	Diane Rae - TRS Active
Victor Moore - Director, Office of Financial Management	Elaine Banks - TRS Retiree
Sandra J. Matheson - Director, Department of Retirement Systems	David Westberg - SERS Active
	Leland Goeke - TRS and SERS Employers

Can be contacted through the State Actuary's office
P.O. Box 40914, Olympia, WA 98504-0914
Telephone: (360) 786-6140
Web site: leg.wa.gov/scpp/index.htm

Pension Funding Council

Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, LEOFF Plan 1 and WSPRS.

Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committee.

Council Membership

Sandra J. Matheson—Director, Department of Retirement Systems, Chairperson
Victor Moore—Director, Office of Financial Management
Senator Margarita Prentice—Chair, Ways and Means Committee
Senator Joseph Zarelli—Ranking minority member, Ways and Means Committee
Representative Gary Alexander—Ranking minority member, Appropriations Committee
Representative Helen Sommers—Chair, Appropriations Committee

Can be contacted through DRS. See information on preceding page.

Office of Financial Management

Advises the governor on pension and funding policies and issues.

The governor appoints the director of OFM.

P. O. Box 43113, Olympia, WA 98504-3113

Telephone: (360) 902-0555

Web site: www.ofm.wa.gov

Washington State Investment Board

Invests and accounts for pension funds. The Board consists of ten voting members.

Membership consists of the director of DRS; the state treasurer; the director of Department of Labor and Industries; a state senator; a state representative; an active member of PERS, SERS, LEOFF and TRS; and a retired member of one of the seven systems.

Board Members (Voting Members, June 30, 2005)

George Masten (Chair)
Representative of Retired Members

Gary K. Weeks
Director, Department of Labor and Industries

Patrick McElligott (Vice Chair)
Representative of LEOFF

Michael J. Murphy
State Treasurer

Senator Lisa Brown

Deborah Brookman
Representative of PERS

Representative Helen Sommers

Glenn Gorton
Representative of SERS

Sandra J. Matheson
Director, Department of Retirement Systems

David Scott
Representative of TRS

Board Members (Nonvoting Members, June 30, 2005)

Jeffrey Hanna
Investment Professional

John Magnuson
Investment Professional

Jeffrey Seely
Investment Professional

Charles A. Kaminski
Investment Professional

Robert S. Nakahara
Investment Professional

P.O. Box 40916, Olympia, WA 98504-0916

Telephone: (360) 956-4600

Web site: www.sib.wa.gov

Office of the State Actuary

Acts as an advisory agency to the legislature and director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits.

The State Actuary is appointed by the Select Committee on Pension Policy.

P.O. Box 40914, Olympia, WA 98504-0914

Telephone: (360) 786-6140

Web site: osa.leg.wa.gov

Employee Retirement Benefits Board

Provides recommendations to the Washington State Investment Board on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; approves administrative charges assessed to members who participate in self-directed investment options; and provides recommendations on investment options for the Deferred Compensation Program. Board members are appointed by the governor.

Board membership
(June 30, 2005)

Board Chairperson

- Sandra J. Matheson—Director, Department of Retirement Systems

Representing experience in defined contribution plan administration:

- Al Symington (Vice-Chair)—Retired
- Jason Zenk—Investment Consultant, Marco Consulting

Representing Public Employees' Retirement System members:

- Claude Burfect—DSHS/Fircrest School
- Dr. Robert Lenigan—Psychologist/Program Coordinator, Western State Hospital
- Gene Otis—Retired

Representing Teachers' Retirement System members:

- Nancy Baldwin—Retired
- Dr. Alison Olzendam—Washington State University
- Herbert Sargo—Science Teacher, Burlington-Edison School District

Representing School Employees' Retirement System members:

- Virginia Drummond—Personnel Report Technician, Tacoma School District
- Marian Harrison—Retired
- Judi Owens—Head Secretary Maintenance Department, Central Valley School District

Representing Deferred Compensation Program Participants:

- Kathy Whitlock—Retired

Can be contacted through DRS. See information on page 5.

DRS Advisory Committee

Serves in an advisory role to the director of DRS on retirement administrative issues. The committee consists of 12 members representing active and retired members of the retirement systems administered by DRS. Advisory Committee membership is distributed in the following manner:

Committee Membership (June 30, 2005)

PERS

Doug Cochran
Active

Marian Harrison
Retired

John I. Payne
Active

Mary L. Sherman
Active

LEOFF

Dick Hybak
Active
(law enforcement officer)

Patrick McElligott
Active
(fire fighter)

Richard Warbrouck
Retired

TRS

Nancy Baldwin
Retired

Todd Beese
Active
(teacher)

Darrell Heisler
Active
(administrator)

WSPRS

Captain Michael DePalma
Active

JRS

Judge Michael Heavey
Active

Can be contacted through DRS. See information on page 5.

Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

Policy-making board that studies pension issues, acts as fiduciaries of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members. The LEOFF Plan 2 Retirement Board consists of three active fire fighters, three active police officers, three employers and two legislators.

Committee Membership (June 30, 2005)

Kelly Fox, Chair
Fire Fighter Representative

Pat Hepler
Fire Fighter Representative

Mark Johnson
Fire Fighter Representative

Jack L. Simington, Vice Chair
Law Enforcement Representative

Michael Edwards
Law Enforcement Representative

Doug Pendergrass
Law Enforcement Representative

Doug Cochran
Employer Representative

Maureen Morris
Employer Representative

David Moseley
Employer Representative

Senator Linda Evans Parlette

Representative Geoff Simpson

P.O. Box 40918, Olympia, WA 98504-0918

(360) 586-2320

Web site: www.leoff.wa.gov